

STATE OF MAINE
PUBLIC UTILITIES COMMISSION

Docket No. 97-759

November 25, 1997

SACO RIVER TELEGRAPH & TELEPHONE
COMPANY
Request for Approval to Reorganize
by Transferring its Subsidiary
Corporations to its Shareholders

ORDER

WELCH, Chairman; NUGENT and HUNT, Commissioners

On October 1, 1997, Saco River Telegraph & Telephone Company (Saco River T&T) filed a petition for approval, pursuant to 35-A M.R.S.A. § 708, for a reorganization of itself. Saco River T&T proposes to transfer its subsidiary corporations to its Saco River T&T's shareholders (a "spin-off").

Saco River T&T is presently owned by several shareholders. Saco River T&T owns 100 percent of Saco River Communications Corporation (Saco River CC). Saco River CC owns all or portions of some five other corporations, including Communications Design (100%), Saco River Cellular, Inc. (100%), and Freedom Ring, L.L.C. See Exhibit A, attached to this Order.¹ Saco River T&T proposes that Saco River T&T "will distribute as a dividend to its stockholders pro rata the shares of Communications Design, Inc. and Saco River Cellular, Inc." Thus, following the distribution, the present Saco River T&T shareholders will own the shares of three separate corporations: Saco River T&T, Communications Design, Inc., and Saco River Cellular, Inc.² See Organization Chart on Exhibit B. Because of the common ownership, however, Saco River T&T, Communications Design and Saco River Cellular, as well as their subsidiaries, will continue to be affiliated interests.

¹Exhibits A and B are organization charts that were attached to Saco River T&T's petition.

Saco River CC owns 50% of Freedom Ring L.L.C.; Union Telephone Company of New Hampshire (not an affiliated interest) owns the other 50%. Freedom Ring L.L.C. is authorized pursuant to 35-A M.R.S.A. § 2102 to provide both local and interexchange service in Maine. See Exhibit A.

²Prior to the distribution, Saco River CC (the current intermediate parent of the other five corporations) will merge into Saco River T&T or Communications Design, Inc. The choice depends on "the requirements to receive a favorable tax ruling from the IRS."

Saco River T&T asserts that the corporate structure following the proposed reorganization is more logical and better isolates the operating incumbent local exchange carrier, Saco River T&T, from its affiliates. It states:

A separation of its businesses would encourage investments, both debt and equity, by outside sources in areas of particular interest to different investors. It would also permit the current owners to focus their respective future investments in areas of the company reflecting an individual owner's interests and appetite for risk, thereby lessening the threat of corporate paralysis arising from divergent views and personal requirements among the owners. The proposed reorganization would moreover open the various unregulated businesses of the company to creative investment opportunities for outside investors as well as performance incentives for key employees, which would not be practicable or appropriate in the context of the present structure. To the extent that the public maintains an interest in the successful operation of Saco River's wireline telephone business, a clear separation of that business from other ventures serves the public interest by avoiding the potential appearance of inappropriate commingling of risk and resources and by reducing the regulatory burden of preventing such commingling.

We agree that the proposed reorganization results in a more logical structure and does appear to better isolate the operations of an incumbent local exchange carrier from its affiliated interests.

Saco River T&T also describes a "property allocation" that assigns all assets and liabilities to each of the surviving entities. Each entity will retain the same assets and liabilities it has prior to reorganization.

Saco River T&T also states that it and the affiliated interests, although spun-off, will continue to have contracts or arrangements among them for contracts and services that must be approved pursuant to 35-A M.R.S.A. § 707(3). In the Ordering Paragraphs below, we grant an exemption from the requirement to obtain approval for contracts and arrangements for services among

affiliates, unless Saco River T&T is a party to the arrangement or contract. Saco River T&T must continue to obtain approval for any contract or arrangement in which it provides goods or services to an affiliated interest or an affiliated interest provides goods or services to it. Any existing contracts or arrangements that have received Commission approval may continue in effect after the reorganization.

Accordingly, we

F I N D

That the reorganization of Saco River Telegraph and Telephone Company, as described herein, is consistent with the interests of the ratepayers and investors of Saco River Telegraph and Telephone Company, and is therefore approved; and we

O R D E R

That, unless the Commission otherwise orders after notice and hearing, Saco River Communications, Inc. and Communications Design, Inc. (affiliated interests of Saco River Telegraph & Telephone Company), and all affiliated interests of Saco River Telegraph & Telephone Company owned in whole or in part by them, once distributed to the shareholders of Saco River Telegraph & Telephone Company, will be exempted from the provisions of section 708 (requiring approval of the Commission for reorganization), and from the provisions of section 707 (requiring approval of contracts or arrangement for the provision of goods or services between affiliated interests), so long as no public utility subject to the regulation by Commission (that is not itself exempted by the Commission from needing approval under sections 707 and 708) holds any equity interest in Saco River Communications, Inc. or Communications Design, Inc., and so long as Saco River Communications, Inc. or Communications Design, Inc. do not hold equity interests in any such public utility. Nothing in this Order shall be deemed to exempt Saco River Telegraph & Telephone Company in any way from the provisions of sections 707 and 708.

Dated at Augusta, Maine this 25th day of November, 1997.

BY ORDER OF THE COMMISSION

Dennis L. Keschl
Administrative Director

COMMISSIONERS VOTING FOR: Welch
Nugent
Hunt